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## Democrats See a Need for Further Economic Stimulus

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Many economists have concluded that a second dose of government stimulus spending is required to prevent a broad economic unraveling and provide relief to millions of Americans grappling with joblessness, plunging home prices and tight credit.

Democratic leaders in Congress have already begun fashioning a package of proposed measures, but on Tuesday, President Bush and the [Federal Reserve](#) chairman, [Ben S. Bernanke](#), both pronounced such action premature.

“Our economy has demonstrated remarkable resilience,” President Bush said at a morning news conference, even as he acknowledged that growth had been “slower than we would have liked.”

Mr. Bush emphasized that the package of stimulus measures adopted in February — \$100 billion in income tax rebates to households this year, and \$52 billion in tax cuts for businesses — has not been fully distributed.

“We ought to see how the first one works,” Mr. Bush said. “Let it run its course. I’m an optimist.”

Debate about a second package of stimulus measures has percolated in Washington for weeks as unemployment has climbed and housing prices have fallen. But the prospect of another surge of government largess has taken on urgency in recent days amid worry about the health of [Fannie Mae](#) and [Freddie Mac](#), which own or guarantee roughly half of the nation’s \$12 trillion in mortgages.

On Tuesday, [Nancy Pelosi](#) of California, the speaker of the House, and other House Democrats met with economists to draft another [stimulus package](#), saying it was likely to include spending for roads, bridges, schools and other public facilities, as well as aid for states confronting smaller tax revenues in the face of the housing downturn.

“This is a serious situation,” said [Lawrence H. Summers](#), a former Treasury secretary in the Clinton administration who attended the meeting, according to Bloomberg News. “We are in much more danger of responding inefficiently than in responding excessively.”

In an interview last week, the Senate majority leader, [Harry Reid](#) of Nevada, said it would be “really hard” to get a package put together before the August recess, indicating that the issue was unlikely to gain

momentum before the fall.

The White House and Congressional Republicans maintain that the best way to reinvigorate the economy is to adopt legislation to limit home foreclosures and expand domestic production of oil.

“Those will do more than any \$300 you might send out to the taxpayers,” said Senator [Johnny Isakson](#), Republican of Georgia.

Even as Mr. Bernanke, the Fed chairman, said it was too early to discuss another round of stimulus, he lent credence to the gathering sense that the economy appears to be deteriorating more deeply than policy makers had feared, as he testified before the Senate banking committee. Rising prices for food and gasoline have exacerbated tight credit and falling home prices to crimp household spending, he said.

Though the Fed has lowered interest rates aggressively in a bid to spur the economy, Mr. Bernanke said growth would remain “appreciably below its trend rate” for the rest of the year.

“The economy continues to face numerous difficulties,” he said.

New evidence of trouble emerged Tuesday when the government released data showing that retail sales grew by a scant 0.1 percent in June over the previous month — only one-fourth the increase economists had expected — in a potential sign that the effect of the rebate checks is already wearing off.

The Labor Department reported that prices paid by producers climbed 1.8 percent in June, and 9.2 percent over the last year — the biggest 12-month jump in more than a quarter-century.

“If we don’t have another stimulus package, that means serious hardship for a lot of people,” said Graciela Chichilnisky, an economist at [Columbia University](#). “All the large industries will shrink operations and lay people off. A lot of people will lose jobs. This is not a typical downturn.”

But as Congress debates whether to send another rush of public money surging through the economy, the politics appear nettlesome — particularly in the thick of a presidential election campaign that may well be decided on economic ground.

Even if consensus eventually settles behind another round of stimulus, what specific measures it should include could be especially difficult to resolve. How to generate the swiftest bang for the buck is a subject of fierce debate among economists. In Washington, the subject trips deep partisan divisions — a fact that President Bush underscored at his news conference.

“If the Democratic leaders had their way in Congress, they would raise taxes, which would be the absolute wrong thing to do,” Mr. Bush said.

Senator [Barack Obama](#) of Illinois, the presumptive Democratic presidential nominee, last month proposed

a \$50 billion package of stimulus measures — \$30 billion in fresh tax rebates, \$10 billion in aid to states, and \$10 billion to help families stave off the loss of homes to foreclosure.

The state money could be used to finance infrastructure projects to generate jobs, said Mr. Obama's economic policy adviser, [Jason Furman](#).

"We have a major collapse in the labor market, especially for men without high school degrees, a lot of whom have historically been employed in construction," Mr. Furman said.

Senator Obama has called on his Republican rival, Senator [John McCain](#) of Arizona, to join in support. Mr. McCain has declined to embrace the package, though a campaign spokesman said he still may. But Mr. McCain's chief domestic policy adviser, Douglas Holtz-Eakin, last week disparaged the largest piece of Mr. Obama's proposal — more tax rebates.

"The problems facing this economy are pretty easy to identify," Mr. Holtz-Eakin said in an interview. "Energy prices are high and rising. Writing checks doesn't do anything to solve that problem."

Mr. McCain has called for a temporary rollback of gasoline taxes, an idea spurned by Mr. Obama and many economists as encouraging consumers to buy more gas, sending prices higher.

Mr. McCain's economic adviser also rejected another idea that has become a centerpiece of Mr. Obama's stimulus thinking — financing large infrastructure projects.

"That's not timely and quick," Mr. Holtz-Eakin said. He offered as a better course lowering corporate taxes and making President Bush's larger tax cuts permanent.

Indeed, the policy prescriptions of Mr. McCain's chief economic adviser were challenged by another economist on the McCain campaign, Mark Zandi, chief economist at [Moody's Economy.com](#).

A paper Mr. Zandi prepared this year concluded that, within the first year of enactment, increased infrastructure spending and aid to states generate roughly four times as much economic growth as making the president's tax cuts permanent, cutting corporate taxes or allowing businesses to write off new investments more quickly.

"Everyone agrees that we need jobs, and everyone also agrees that infrastructure is one of our most pressing needs," Mr. Zandi said in an interview last week. "If we can combine stimulus with infrastructure, I think that's great."

Above all, Mr. Zandi said, it was now imperative the government deliver some sort of new stimulus.

"The problems plaguing the economy seem entrenched," he said. "The economy could spiral even further down if you don't try to stem that."

The Treasury Department has already distributed nearly \$92 billion of the promised \$100 billion in tax rebates. This surge of cash has landed in cash registers, sparing some jobs, say economists. But it has neither enticed companies to hire, nor persuaded banks to lend to any significant degree. As the effects wear off — perhaps sooner than later — most experts expect the economy will pull back and remain weak into next year.

If they do assent to another stimulus package, Republicans are inclined to push for more tax cuts for businesses, an approach that draws skepticism from some economists.

“When businesses can’t sell what they’re selling now, they don’t have much of an incentive to invest in new plants,” said Chad Stone, chief economist for the Center for Budget and Policy Priorities in Washington, a liberal policy institute.

Others say the measures being discussed are mere tinkering in the face of a crisis that can be solved only by injecting banks with substantial money. Until their balance sheets are restored, bankers will continue to be tight with their dollars, starving the economy of investment, said Vincent R. Reinhart, formerly an economist at the Federal Reserve and now a resident scholar at the conservative [American Enterprise Institute](#). The government must hand some \$300 billion to major banks, he argues, recovering the money as their business improves.

“It’s really unpalatable, but it’s the bucket with the least holes,” Mr. Reinhart said. “All this other stuff is addressing the manifestations of the problem, rather than the problem itself.”

*Steven Lee Myers contributed reporting from Washington.*

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